

RURAL WATER DISTRICT NO. 2
Clay County, Kansas

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
For the Years Ended December 31, 2009 and 2008

CLUBINE AND RETTELE, CHARTERED
CERTIFIED PUBLIC ACCOUNTANTS
Salina, Kansas

RURAL WATER DISTRICT NO. 2
Clay County, Kansas

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INDEPENDENT AUDITORS' REPORT

To: The Members and Board of Directors
Rural Water District No. 2
Clay County, Kansas

We have audited the accompanying balance sheets of Rural Water District No. 2, as of December 31, 2009 and 2008, and the related statements of income, expenses, changes in members' equity and cash flows, for the years then ended. These financial statements are the responsibility of the Rural Water District No. 2's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit Guide*, prescribed by the Division of Accounts and Reports of the State of Kansas. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rural Water District No. 2, as of December 31, 2009 and 2008, and the results of its operations, the changes in its members' equity and its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America and the *Kansas Municipal Audit Guide*.

Clubine and Rettele, Chartered

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March 4, 2010

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RURAL WATER DISTRICT NO. 2
Clay County, Kansas

Exhibit I

BALANCE SHEETS
December 31, 2009 and 2008

	ASSETS	<u>2009</u>	<u>2008</u>
Current Assets			
Cash		\$ 25,731.48	\$ 41,147.72
Accounts receivable		13,908.07	15,913.35
Certificates of deposit		244,084.40	276,154.61
Accrued interest receivable		784.59	1,691.74
Prepaid insurance		<u>6,334.73</u>	<u>5,319.44</u>
Total Current Assets		<u>290,843.27</u>	<u>340,226.86</u>
Property and Equipment			
Water transmission and distribution system		2,041,862.72	1,861,145.60
Equipment		<u>193,299.43</u>	<u>185,410.59</u>
		2,235,162.15	2,046,556.19
Deduct - Accumulated depreciation		<u>1,119,004.65</u>	<u>1,073,457.16</u>
Total Property and Equipment		<u>1,116,157.50</u>	<u>973,099.03</u>
Other Assets			
Capitalized interest, net		11,930.96	12,726.36
Bond issuance cost, net		2,833.16	2,833.16
Capitalized legal costs, net		<u>8,722.34</u>	<u>9,315.02</u>
Total Other Assets		<u>23,486.46</u>	<u>24,874.54</u>
Totals		<u>\$ 1,430,487.23</u>	<u>\$ 1,338,200.43</u>
	LIABILITIES AND EQUITY		
Current Liabilities			
Accounts payable		\$ 1,222.96	\$ 3,740.40
Accrued Interest		16,767.36	-
Loans payable		15,256.46	-
Taxes payable		<u>1,307.39</u>	<u>1,242.06</u>
Total Current Liabilities		34,554.17	4,982.46
Long-term Liabilities			
Loans payable		<u>124,029.43</u>	<u>-</u>
Total Liabilities		158,583.60	4,982.46
Members' Equity - Exhibit III		<u>1,271,903.69</u>	<u>1,333,217.97</u>
Totals		<u>\$ 1,430,487.29</u>	<u>\$ 1,338,200.43</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

RURAL WATER DISTRICT NO. 2
Clay County, Kansas

Exhibit II

STATEMENTS OF INCOME
For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Income		
Water sales	\$ 178,612.96	\$ 179,424.61
Installation	7,860.59	4,092.36
Other income	<u>4,823.51</u>	<u>2,269.52</u>
Total Income	<u>191,297.06</u>	<u>185,786.49</u>
Expenses		
Salaries	61,992.98	56,503.75
Interest Expense	16,767.36	-
Utilities	9,931.23	10,295.13
Repairs and maintenance	50,879.30	30,586.60
Chemicals	4,950.84	4,891.80
Telephone	1,908.17	1,464.19
Payroll Taxes	5,170.25	5,807.95
Insurance	6,255.71	6,740.61
Office supplies	2,592.26	2,175.76
Other Professional Fees	10,995.61	9,304.53
Depreciation	45,547.49	43,748.85
Amortization	1,388.08	11,035.14
Machine hire	8,179.00	4,705.54
Miscellaneous	8,998.70	4,913.19
Mileage	18,588.97	13,496.09
Labor	<u>11,985.95</u>	<u>3,006.00</u>
Total Expenses	<u>266,131.90</u>	<u>208,675.13</u>
Net Loss From Operations	<u>(74,834.84)</u>	<u>(22,888.64)</u>
Other Income		
Interest income	<u>6,520.56</u>	<u>11,378.40</u>
Net Loss	\$ <u><u>(68,314.28)</u></u>	\$ <u><u>(11,510.24)</u></u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

RURAL WATER DISTRICT NO. 2
Clay County, Kansas

Exhibit III

STATEMENTS OF CHANGES IN MEMBERS' EQUITY
For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 1,333,217.97	\$ 1,330,728.21
Add - Sale of Benefit Units	7,000.00	14,000.00
Subtract - Net Loss - Exhibit II	<u>(68,314.28)</u>	<u>(11,510.24)</u>
Balance, end of year	\$ <u><u>1,271,903.69</u></u>	\$ <u><u>1,333,217.97</u></u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

RURAL WATER DISTRICT NO. 2
Clay County, Kansas

Exhibit IV

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash Flows From Operating Activities		
Cash received from customers	\$ 193,302.34	\$ 185,230.70
Interest received	7,427.71	11,704.60
Cash paid to suppliers and others	<u>(205,896.37)</u>	<u>(151,585.90)</u>
Net Cash Provided (Used) by Operating Activities	<u>(5,166.32)</u>	<u>45,349.40</u>
Cash Flows From Investing Activities		
Water construction costs	(180,717.12)	(27,655.80)
Purchase of equipment	(7,888.90)	(1,800.00)
Sale of benefit units	<u>7,000.00</u>	<u>14,000.00</u>
Net Cash Used by Investing Activities	<u>(181,606.02)</u>	<u>(15,455.80)</u>
Cash Flows From Financing Activities		
Proceeds from issuing notes	<u>139,285.89</u>	<u>-</u>
Net Cash Provided by Financing Activities	<u>139,285.89</u>	<u>-</u>
Net Increase (Decrease) in Cash	(47,486.45)	29,893.60
Cash at Beginning of Year	<u>317,302.33</u>	<u>287,408.73</u>
Cash at End of Year	\$ <u><u>269,815.88</u></u>	\$ <u><u>317,302.33</u></u>

RECONCILIATION OF NET LOSS
TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Loss - Exhibit II	\$ <u>(68,314.28)</u>	\$ <u>(11,510.24)</u>
Adjustments to reconcile net loss to net cash provided (used) by operating activities		
Depreciation and amortization	46,935.57	54,783.99
Decrease (Increase) in accounts receivable	2,005.28	(555.79)
Decrease in interest receivable	907.15	326.20
Decrease (Increase) in prepaid insurance	(1,015.29)	257.61
Increase in accrued interest	16,767.36	-
Increase in taxes payable	65.33	340.38
Increase (Decrease) in accounts payable	<u>(2,517.44)</u>	<u>1,707.25</u>
Total Adjustments	<u>63,147.96</u>	<u>56,859.64</u>
Net Cash Provided (Used) by Operating Activities	\$ <u><u>(5,166.32)</u></u>	\$ <u><u>45,349.40</u></u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

RURAL WATER DISTRICT NO. 2
Clay County, Kansas

NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008

1. Rural Water District No. 2, Clay County, Kansas, (the District) was organized under Section 82a – 612 et seq. of Kansas Statutes annotated, as amended, for the purpose of providing a water supply system for the landowners within the area of the District. The District is a quasi-municipality and the following is a summary of its significant accounting policies:
- A. The District's policy is to prepare its financial statements on the accrual basis. Under this basis, income is recognized when earned, and expenses are recognized when incurred.
 - B. The property and equipment are reported at cost. Depreciation of property and equipment is computed using the straight-line method over the estimated useful life of each asset. The estimated useful lives of the assets range from ten to fifty years.
 - C. During 1992, \$93,326.89 in legal costs regarding the refinancing was capitalized. This amount is being amortized over a seventeen-year period.
 - D. Cash in checking, money market, and certificates of deposits are considered to be cash and cash equivalents. The District considers these funds available for current operations. These accounts can be summarized at December 31, as follows:

	2009	2008
Operating	\$ 1,464.83	\$ 1,703.30
Money Market	24,266.65	39,444.42
Certificates of Deposit	244,084.40	276,154.61
Totals	<u>\$ 269,815.88</u>	<u>\$ 317,302.33</u>

- E. The District is exempt from federal and state income taxes.
- F. Accounts Receivable is reported at net realizable value. Bad debts are directly written to expense when management considers them uncollectible. No allowance for bad debts has been recorded. The direct write-off method is not acceptable for the purposes of generally accepted accounting principles. This departure does not result in a material misstatement of the financial statements.
- G. The District has a vacation policy that only applies to the Operator. In this policy, the Operator is allowed two weeks of paid vacation based on a rate of 25 hours per week. There was not any unused vacation. The District does not have a sick leave policy.

RURAL WATER DISTRICT NO. 2
Clay County, Kansas

NOTES TO FINANCIAL STATEMENTS (CONT.)
December 31, 2009 and 2008

2. The Certificates of Deposit at December 31, 2009, consist of the following:

<u>Bank</u>	<u>Number</u>	<u>Interest</u>	<u>Current Value</u>
United Bank and Trust	1701316062	3.46%	\$62,100.01
United Bank and Trust	1701318413	1.75%	51,544.70
Union State Bank	0067404	1.49%	43,946.57
Clay County National Bank	22688420	1.75%	20,175.86
Clay County National Bank	22688421	1.31%	30,362.65
Clay County National Bank	22688429	1.75%	35,954.61
TOTAL			<u>\$244,084.40</u>

The Certificates of Deposit at December 31, 2008, consist of the following:

<u>Bank</u>	<u>Number</u>	<u>Interest</u>	<u>Current Value</u>
United Bank and Trust	1701315872	2.82%	\$50,000.00
United Bank and Trust	1701316062	3.46%	60,000.00
Union State Bank	0067404	2.38%	42,916.02
Clay County National Bank	22688427	2.90%	42,669.68
Clay County National Bank	22688428	2.50%	45,568.91
Clay County National Bank	22688429	2.70%	35,000.00
TOTAL			<u>\$276,154.61</u>

3. At year-end, the carrying amount of the Clay County Rural Water District No. 2 deposits, including certificates of deposit, was \$269,815.88. The bank balance was \$329,924.30. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. FDIC coverage totaled \$329,924.30 to cover the bank balances, and pledged securities totaled \$40,841.76.
4. The District has received a loan from The Kansas Department of Health and Environment for an estimated \$446,189.00 at a gross rate of 3.79%. As of December 31, 2009, the district had received \$139,285.89 of the funds. An additional \$63,269.65 in funds had been received prior to our report on March 4, 2010. The first payment for the loan is due February 1, 2010, and the final maturity is on August 1, 2029.

Custodial credit risk – For an investment, this is the risk that, in the event of failure of the issuer or counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured. At December 31, 2009, the district's investments were adequately secured.

5. The District's management has evaluated events and transactions occurring after the statement of financial position date through March 4, 2010. The aforementioned date represents the date the financial statements were available to be issued.

CLAY COUNTY RURAL WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS (Cont.)

December 31, 2009

Note 6 Long-Term Debt

Changes in long-term liabilities for the municipality for the fiscal year ended December 31, 2009, were as follows:

Issue	Interest Rates	Date of Issue	Estimated Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
Long-Term Debt: KPWSLF PROJ. NO. 2530	3.44%/3.35%	10/8/2008	\$ 446,189.00	8/1/2029	\$ -	\$ 139,285.89	\$ -	\$ -	\$ 139,285.89	\$ -
Current estimated maturities of long-term debt and interest for the next five years and in five-year increments through maturity are as follows:										
		2010	2011	2012	2013	2014	2015-2019	2020-2024	2025-2029	Total
Principal: KPWSLF PROJ. NO. 2530	\$ 15,256.46	\$ 15,840.16	\$ 16,446.19	\$ 17,075.41	\$ 17,728.70	\$ 99,351.91	\$ 119,868.43	\$ 144,621.74		\$ 446,189.00
Interest: KPWSLF PROJ. NO. 2530	15,218.93	14,689.13	14,139.07	13,567.95	12,975.00		55,155.49	36,533.62	14,066.22	176,345.41
Service Fee: KPWSLF PROJ. NO. 2530	1,548.43	1,494.53	1,438.56	1,380.46	1,320.12		5,611.70	3,717.05	1,431.14	17,941.99
Total Principal and Interest	\$ 32,023.82	\$ 32,023.82	\$ 32,023.82	\$ 32,023.82	\$ 32,023.82	\$ 32,023.82	\$ 160,119.10	\$ 160,119.10	\$ 160,119.10	\$ 640,476.40